

Message Text

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41

ACTION EB-03

INFO OCT-01 SS-14 ISO-00 SSO-00 ARA-08 EUR-08 SP-02 L-01

NSC-05 NSCE-00 INR-05 CIAE-00 INRE-00 IO-03 PRS-01

/051 W

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O R 011520Z MAY 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 5330

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY BOGOTA

AMEMBASSY LONDON

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LIMDIS

FOR DEPUTY ASSISTANT SECRETARY KATZ

E. O. 11652: N/A

TAGS: ETRD; EAGR; BR

SUBJECT: CALAZANS REPLY TO DEPUTY ASSISTANT SECRETARY KATZ

REF: BRASILIA 3649, STATE 99886

1. SUMMARY. CALAZANS HAS REPLIED TO KATZ LETTER ON
HIGH COFFEE PRICES. END SUMMARY.

2. ON THE EVENING OF APRIL 30, IBC PRESIDENT CALAZANS
PROVIDED COUNSELOR ECON-COMMERCIAL WITH ADVANCE COPY OF
HIS RESPONSE TO THE LETTER FROM DEPUTY ASSISTANT SECRETARY
KATZ, NOW BEING FORWARDED TO WASHINGTON. FOLLOWING IS
INFORMAL TRANSLATION OF LETTER DATED APRIL 29.

3. QUOTE. DEAR JULES: I HAVE JUST RECEIVED YOUR LETTER
OF APRIL 24, IN WHICH YOU EXPRESS YOUR CONCERN AS TO THE
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SITUATION OF THE WORLD COFFEE MARKET, ESPECIALLY AS REGARDS

THE SPECULATIVE BOOM MOST RECENTLY OBSERVED ON THE COFFEE EXCHANGES AND THE POSSIBLE NEGATIVE EFFECTS OF A PROLONGED MAINTENANCE OF COFFEE PRICES AT CURRENT LEVELS.

4. QUOTE. FIRST OF ALL, I MUST TELL YOU THAT I LARGELY SHARE YOUR CONCERNS. I HAVE NO DOUBTS AS TO THE PREJUDICIAL EFFECTS OF THE MAINTENANCE OF A PRICE STRUCTURE TENDING TO AFFECT LEVELS OF CONSUMPTION, AS WELL AS TO STIMULATE, IN THE LONGER TERM, EXCESSIVE PLANTING, WHICH WILL GENERATE PRODUCTION AND LEVELS OF SUPPLY INCOMPATIBLE WITH THE REALITIES OF GLOBAL DEMAND.

5. QUOTE. I UNDERSTAND IN PARTICULAR YOUR APPREHENSION OVER CURRENT COFFEE PRICES TO THE U.S. CONSUMER, SINCE AN IDENTICAL SITUATION EXISTS IN THE INTERNAL BRAZILIAN MARKET, WHERE THE RETAIL PRICE OF ROASTED COFFEE HAS REACHED THE EQUIVALENT OF US \$1.90 PER POUND -- AN INCREASE OF 220 PER CENT OVER THE LEVELS PREVAILING IN THE MIDDLE OF 1975--WHICH, IN RELATIVE TERMS, HAS AN IMPACT ON THE BRAZILIAN HOUSEWIFE'S BUDGET FAR GREATER THAN THAT EXPERIENCED IN THE INDUSTRIAL COUNTRIES.

6. QUOTE. UNFORTUNATELY, THE SITUATION OF THE MARKET IS REALLY ONE OF RELATIVE SCARCITY, AS A RESULT OF THE CLIMATIC PHENOMENA EXPERIENCED IN BRAZIL IN JULY 1975, OCCURRENCES OF VARIOUS KINDS IN OTHER PRODUCING COUNTRIES, AND THE NECESSITY, FOR EXPORTING COUNTRIES LIKE BRAZIL, TO MAINTAIN MINIMUM STOCKS DESIGNED TO PROTECT THEIR LEVELS OF INTERNAL CONSUMPTION AND, TO THE EXTENT POSSIBLE, TO PROVIDE FOR THE SUPPLY OF TRADITIONAL MARKETS.

7. QUOTE. IN SUCH CIRCUMSTANCES, IT SEEMS TO ME INEVITABLE THAT THE FREE PLAY OF MARKET FORCES WOULD PRESS IN THE DIRECTION OF A NATURAL INCREASE OF PRICE QUOTATIONS, CREATING CONDITIONS FAVORABLE TO SPECULATIVE MANEUVERS DIFFICULT TO CONTROL, WHICH --ALTHOUGH UNDESIRABLE FOR PRODUCERS AND CONSUMERS, AS YOU RIGHTLY STRESS -- SEEM TO CONSTITUTE AN INHERENT ELEMENT OF THE PROCESS OF PRICE FORMATION ON THE INTERNATIONAL MARKET.

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8. QUOTE. AS REGARDS BRAZIL, WE HAVE SOUGHT NOT ONLY TO AVOID ATTITUDES OR CONJECTURES SUSCEPTIBLE OF STIMULATING ARTIFICIAL PRICE MOVEMENTS BUT HAVE INSISTED ESPECIALLY ON DEMONSTRATING, EVER SINCE THE CONFIRMATION OF THE EFFECTS OF THE FROSTS OF 1975, THAT THE BRAZILIAN GOVERNMENT IS FIRMLY ENGAGED IN A PROGRAM OF RECOVERY OF THE NATIONAL COFFEE CULTIVATION

IN THE SHORTEST POSSIBLE TIME AND, CONSEQUENTLY, THE
NORMALIZATION OF THE SUPPLY OF BRAZILIAN COFFEES ON THE
WORLD MARKET, OF WHICH WE PLAN TO REGAIN OUR TRADITIONAL
SHARE. THE EMERGENCY PROGRAM FOR THE RECOVERY OF THE
AFFECTED COFFEE TREES WITH WHICH YOU ARE FAMILIAR,
INVOLVES INVESTMENTS EQUIVALENT TO MORE THAN \$1 BILLION,
THIS DEMONSTRATING--GIVEN THE SCARCITY OF INVESTMENT
CAPITAL IN DEVELOPING COUNTRIES LIKE OURS--BRAZIL'S
DESIRE TO ACT IN ACCORDANCE WITH ITS RESPONSIBILITIES
AS A MAJOR PRODUCER AND WORLD EXPORTER OF COFFEE.

9. QUOTE. PRECISELY IN ORDER TO ACKNOWLEDGE THIS
GREAT RESPONSIBILITY, THE BRAZILIAN GOVERNMENT DECIDED,
IMMEDIATELY AFTER THE FROSTS OF 1975, TO REAFFIRM IS
POSITION IN FAVOR OF THE CONCLUSION OF A NEW INTERNATIONAL
COFFEE AGREEMENT AND TO NEGOTIATE ACTIVELY IN THE
NEGOTIATION OF THAT INSTRUMENT, IN WHICH WE SEE THE
MECHANISM CAPABLE OF GUARANTEEING, IN THE FUTURE, THE
ACHIEVEMENT OF THE OBJECTIVE OF ORDERLY AND STABLE
MARKETS, PURSUED BY PRODUCER AND CONSUMER COUNTRIES.

10. QUOTE. WE THUS HAVE OBSERVED WITH SPECIAL
SATISFACTION YOUR OWN PERSONAL INVOLVEMENT AND THAT OF
THE STATE DEPARTMENT, NOT ONLY DURING THE WHOLE NEGOTIATING
PROCESS OF THE NEW AGREEMENT, BUT ALSO IN ITS PROMPT
SUBMISSION FOR RATIFICATION BY THE U.S. SENATE. IN VIEW
OF THE CLEAR BENEFITS WHICH CERTAINLY WILL FLOW FROM
THE SAID INSTRUMENT, I BELIEVE I CAN TRUST THAT YOU
WILL KNOW HOW TO STAVE OFF, WITH THE SAME PERSONAL
COMMITMENT YOU HAVE DEMONSTRATED UNTIL NOW, ANY ERRONEOUS
LINKAGE, ON THE PART OF THE RESPONSIBLE AMERICAN
AUTHORITIES, BETWEEN THE NEW AGREEMENT AND UNDESIRABLE
SPECULATIVE MANEUVERS, WHOSE EFFECTS, PREJUDICIAL TO
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ALL, UNFORTUNATELY ESCAPE THE CAPACITY OF CONTROL OF
THE GOVERNMENTS INTERESTED IN AN ORDERLY WORLD COFFEE
MARKETS.

11. QUOTE. I WISH TO THANK YOU FOR YOUR INITIATIVE
AND HOPE THAT WE CAN CONTINUE TO STAY IN CLOSE CONTACT
ON THESE MATTERS OF VITAL INTEREST FOR OUR TWO COUNTRIES
AND FOR THE WORLD COFFEE MARKET IN GENERAL. SINCERELY
CAMILLO CALAZANS DE MAGALHAES. UNQUOTE.
JOHNSON

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